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C O N F I D E N T I A L SEOUL 001005

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [KS](#) [KN](#)  
SUBJECT: NORTH KOREA SHOWS WILLINGNESS TO KEEP KAESONG  
INDUSTRIAL COMPLEX OPEN

Classified By: POL M/C Joseph Yun. Reasons 1.4 (b/d).

11. (C) Summary: The third round of Kaesong Industrial Complex (KIC) talks on June 19 convinced involved ROK participants that North Korea would not close the KIC, because the North Korean delegation did not walk out during the lengthy meeting and the next meeting date was brought up by the DPRK delegation. As the priority item, the ROKG demanded the release of Mr. Yoo, the ROK detainee held since March 30, and better border crossing access. The ROK side also put down a clear marker on KIC development by proposing three "guiding principles" to make the project more transparent, business-oriented and less political. North Korea demanded USD 500 million from the ROKG because KIC provided external benefits. The DPRK repeated its earlier demands for increases in rent and wages, but showed some flexibility in lifting border restrictions placed since December 1, 2008. For mid- to long-term goals, the DPRK proposed construction of a nursery, a dormitory and more roads and the ROKG proposed a joint trip to other industrial parks in the region. End Summary.

12. (SBU) The third round of inter-Korean negotiations at the KIC took place on June 19, following April 21 and June 11 meetings. The talks lasted about three hours, including a 100-minute morning session and a 60-minute afternoon session. The ten-member ROK delegation was led by Unification Ministry official Kim Yong-tak, who also led previous KIC discussions. Park Chul-soo, Deputy Director of the Central Special District Development Guidance Bureau, led the DPRK delegation, also consistent with previous DPRK delegation composition.

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North Korea Willing to Keep KIC Open  
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13. (C) The ROK delegation intentionally opened the morning session with a 40-minute key note speech of 33-pages, which was faxed to the DPRK in advance. While the DPRK delegation interrupted three times, expressing annoyance and anger over the long speech, the North Korean officials did not walk out of the meeting. According to Suh Ho, Ministry of Unification (MOU) Director General for Dialogue Planning Office and a member of the ROK delegation, the speech was a litmus test for the North. Had North Korea walked out during the speech, it would have signaled its intention to close the KIC.

14. (C) Another "test" for the North, designed during a recent ROK strategy session, was not mentioning the next meeting date. Until the end of the afternoon session, the ROK delegation remained silent on future meetings. Finally, the

DPRK asked when the delegations would meet again, to which the ROKG responded July 2. The DPRK initially counter-proposed the ROK date with an earlier time, June 30, but later conceded to July 2. Both "tests" proved to the ROKG that North Korea was willing to keep KIC open, Suh said.

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ROK Detainee  
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15. (C) As a top priority, the ROK delegation urged the North to release Mr. Yoo, who has been held in North Korea since March 30. The ROKG argued that Yoo's detention without visitation rights was against the "cooperative spirit of the Korean people," a phrase often used by the North against South Korea. The ROK delegation also made an effort to convey two letters from Yoo's family: one letter to Yoo inquiring about his health and another to the DPRK authorities to allow family members to meet with Yoo.

16. (C) The DPRK delegation said that Yoo is currently under investigation under the 2004 Agreement on the Entry and Stay in the Kaesong Industrial Complex and Mt. Kumgang Tourist Zone and that all procedures regarding Yoo's case would be based on this document. The DPRK delegation declined to receive the two letters from Yoo's family, but told the ROK delegation to pass the message to Yoo's family that "he is all right." This was the first official accounting of on Yoo's welfare -- another positive signal for the ROKG.

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Guiding Principles  
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17. (SBU) After much interagency discussions in Seoul, the ROK delegation conveyed the following three principles in order to make the project less prone to ups and downs in North-South relations:

- Transparency: Both sides must observe inter-Korean agreements and relevant contracts, laws and institutions;
- Business Orientation: KIC must promote business and economic goals; it should not be influenced by political or military events or developments; and
- Future-Oriented Development: Both sides should seek to develop the KIC into an internationally competitive industrial park, with a future-oriented perspective.

18. (C) To drive the points home that Pyongyang's demand to unilaterally hike wages and rents was not reasonable, the ROKG proposed a joint visit to industrial parks in China and Vietnam, possibly to more developed economies, such as the United States and Latin America. The purpose of the trip would be to observe operations of other joint economic zones. As expected, the DPRK delegation did not provide a response, and no details for the trip have been arranged.

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ROK and DPRK Priorities: Access Guarantee Vs. More Fees  
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19. (SBU) ROK delegation proposed the following:

- Withdrawal of entry-exit limitations imposed by the DPRK since December 1, 2008;
- Resolution of regular, safe and guaranteed passage, communication and customs; and
- Establishment of a "Joint Committee on Passage and Stay" to implement regular and safe passage.

110. (SBU) The ROKG rejected the North's demand for increased land lease fees and wages.

¶11. (C) The DPRK placed its priority on increased land lease fees and wages. The DPRK delegate explained that the current land lease fee was granted as a "preferential" rate in the "cooperative spirit of the Korean people." The North Korean delegation argued that since the Lee administration decided to no longer honor the "cooperative spirit of the Korean people," it would not be possible for North Korea to continue to provide a preferential rate.

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USD 500 Million Fee  
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¶12. (C) Not covered by the press is the North Korean demand for USD 500 million, which was first conveyed on June 11. According to our MOU contacts, Pyongyang has characterized this request as a security fee, not an economic or business item. Asked to clarify, the North Korean said that the South now had access to a strategic area of the DPRK, thus enhancing South Korean security and deriving strategic gains. During the June 19 meeting, the ROK delegation rejected this request.

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Potential Progress on Access, Nursery, and Dorms  
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¶13. (C) Providing another positive signal to the ROKG, the North said that it would consider lifting measures on border crossing at KIC. The DPRK also proposed working-level consultations on issues related to the construction of a nursery, a dormitory, and roads. Suh told poloff that a nursery would be built before the dorms, since it was smaller and cheaper. Although the Blue House gave a green light for the dormitory construction, a project of that scale and budget would require "much improved" political atmosphere, Suh said.

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Comment  
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¶14. (C) Despite the strained inter-Korean relations, neither the South nor the North wants to pull the plug on the Kaesong Industrial Complex. More than that, the KIC is quite useful for both. For Pyongyang, the project is a source of foreign currency. The North is prepared to play, as long as the price is right, as demonstrated by its narrow set of financial demands. In return, the South too can be flexible, but the price has to be reasonable and the North must provide at least some political cover, including a resolution to the detained South Korean citizen. MOU officials, very pessimistic even a week ago, are now in a better mood, hopeful for the next round of talks on July 2.  
STEPHENS